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Surveys of Consumers

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Slow Growth But No Recession Expected: Consumers Wait for Larger Discounts

Index Slips

The Index of Consumer Sentiment was 90.9 in the November 1989 survey, down from 93.9 in October and 93.0 in November 1988. The November decline was due to an increasing awareness of sluggish economic growth, as well as concern over market prices for household durables.

Among families with incomes of $40,000 or more, the Index of Consumer Sentiment was 100.5 in November, down from 103.6 one month earlier and 101.0 one year earlier.

The most remarkable aspect of recent attitude trends is that consumers' assessments have remained favorable despite the expectation of little if any improvement in the national economy. In an earlier era, the expectation of a stagnant economy would have been a serious cause for concern, and would have resulted in a sharp loss in consumer confidence. Times change, and so do people's standards of comparison.

At present, assessments do not depend as much on whether the economy is meeting its potential for growth like in the 1960s, but on whether the economy can avoid the excesses and hardships of the 1970s, when pessimism and uncertainty prevailed.

Importantly, the 1980s brought a renewed sense of confidence in the stability of the economy--even if stagnant--and has helped to insulate consumer attitudes from volatile changes. Slower growth has not yet been viewed as a signal of an impending recession, as was often true in the past.

Indeed, consumers now expect the sluggish economy to keep pressure on sellers to offer even larger discounts on prices and interest rates. Although at first confined to a few industries, consumers have now come to expect all sellers to offer discounts, and to time their purchases to their availability.

The withdrawal of discounts is now met with sharp declines in sales, both because consumers have sped up purchases to take advantage of earlier discounts, and because consumers are more willing to postpone purchases as they expect renewed discounting in the future.

And thus the waiting game, as both buyers and sellers attempt to gauge the limits of each others willingness to wait. And after seven years of economic expansion, consumers can wait a relatively long time before they need to replace or upgrade their durable stock.

Leading Indicator Posts Small Decline

The Index of Consumer Expectations, the component of the Index of Leading Indicators, fell to 84.3 in the November 1989 survey, down from 87.2 in October and 86.3 in November 1988. Overall, the November reading of 84.3 is only marginally below the third quarter 1989 average of

84.8. The primary reason for the recent decline in the Expectations Index was less favorable evaluations of the national economy.

The other component of the Index of Consumer Sentiment, which measures opinions of current economic conditions, fell to 101.2 in November 1989 from 104.4 one month earlier and 103.3 one year earlier. Less favorable evaluations of buying conditions for large household durables led to this small decline.

Economic Slowdown Reported; But No Recession Expected

Consumers have become increasingly aware of the fourth quarter slowdown in economic growth, with fewer families reporting that overall conditions in the national economy improved during the past year. Among all families in the November 1989 survey, 42 percent reported improved conditions in the domestic economy, down from 47 percent one month earlier and 54 percent one year earlier. When asked to identify what recent changes in the economy they had heard or read about, the proportion of families that mentioned increases in unemployment due to layoffs and plant closings rose (to 17 percent, up from 13 percent one year earlier), and the proportion that mentioned hearing reports of weakening consumer spending also rose (to 5 percent, up from 2 percent a year earlier).

Rather than the expectation that the slowdown in economic growth would accelerate and result in a recession, the majority of families (61 percent) expected that the current slow pace of economic growth would persist largely unchanged through the year ahead. Few families expected the economy to either improve (18 percent) or worsen (18 percent) during the year ahead. Overall, these figures were nearly identical to the year earlier readings.

Given the expectation of slow economic growth without a recession, half of all consumers judged this to mean the continuation of good times in the national economy. Good times financially in the economy as a whole during the year ahead were expected by 50 percent of all families in the November 1989 survey, down slightly from the 53 percent recorded both one month and one year earlier. When asked about the outlook over the longer term, the proportion of families that expected good times financially rose slightly, to 38 percent in the November 1989 survey from 36 percent one month earlier, but remained below the 40 percent recorded one year earlier.

Slow Growth Focuses Concerns on Employment Prospects

The major impact expected from the sluggish performance of the economy was focused on somewhat diminished employment prospects.

Importantly, since no recession is anticipated, the majority of families (54 percent) continued to expect the national unemployment rate to remain largely unchanged during the year ahead.

Nonetheless, it is clear that families judged the likelihood of increases in unemployment to be greater than declines. Among all families in the November 1989 survey, 35 percent expected the national unemployment rate to increase during the year ahead, up from 30 percent in October and 27 percent in November 1988. Many fewer families expected declines in the unemployment rate, just 10 percent in November 1989, down from 14 percent both one month and one year earlier.

Overall, these unemployment expectations indicate that the slowly expanding economy is expected to result in a slightly rising unemployment rate.

Inflation and Interest Rate Expectations Remain Unchanged

Consumers expected the annual rate of inflation to average 4.7% in the November 1989 survey, unchanged from the October figure and equal to the third quarter 1989 average. Current inflation expectations, however, are well below the 5.4%

rate expected in the November 1988 survey.

Interest rate expectations have remained largely unchanged during the past several months. Among all families in the November 1989 survey, 52 percent expected interest rate increases, down from 55 percent in October, but equal to the average recorded during the past six months.

Personal Finances Remain Positive

Among all families in the November 1989 survey, 42 percent reported that their financial situation had improved during the past year, identical to the figures recorded in both the October and September 1989 surveys, and just above the 41 percent recorded in November 1988. When asked to explain how their financial situation had changed during the past year, 32 percent reported income increases, unchanged from October and slightly below the 35 percent recorded in November 1988.

American families continued to view prospects for their own financial situation in positive terms. Among all families in the November 1989 survey, 41 percent expected their finances to improve during the year ahead, between the 42 percent recorded one month earlier and the 37 percent recorded one year earlier. Just 10 percent of all families expected their financial situation to worsen during the year ahead. Nearly half of all families (48 percent) expected their financial situation to remain the same during the year ahead, considering changes in both incomes and prices.

Household Durables: Waiting for Discounts

The proportion holding favorable attitudes toward buying conditions for furniture, appliances and home electronic goods fell to 67 percent in the November 1989 survey, down from 73 percent both one month and one year earlier. While this represents a rather small decline, the November 1989 reading was the lowest monthly figure recorded since late 1987--immediately following the October stock market plunge.

Changing perceptions of market prices was the primary reason for the recent decline in favorable buying attitudes toward large household durables. While references to the availability of price discounts still dominate responses (and continue to maintain overall buying attitudes at favorable levels), compiaints about high prices have risen and represent the primary cause for the current weakness.

Among all families in the November 1989 survey, 14 percent registered complaints about high prices for durables when asked to explain their views. Although this figure is only modestly above the 11 percent recorded in October, it was the highest figure recorded since 1985.

Interestingly, despite the rise in complaints about prices, there has been no increase in the rationale that it would be better to buy-in-advance of further price increases. Indeed, the proportion that mentioned buy-in-advance rationales fell in the November 1989 survey to 17 percent from 19 percent both one month and one year earlier.

Unlike consumer reactions to inflation in the 1970s, at present consumers are more likely to postpone purchases in the face of price increases. Consumers have come to expect discounts, and when these expectations are not met, they are more willing to wait for renewed discounting. Moreover, given consumers' awareness of the weakness in the economy, they think that the wait will not be long.

Vehicle Buying Attitudes: Larger Discounts Are Expected

Favorable attitudes toward buying conditions for vehicles were held by 62 percent of all families in the November 1989 survey, unchanged from the October reading. Vehicle buying attitudes have remained remarkably stable for more than a year.

Indeed, in 14 of the past 18 monthly surveys, the proportion of families holding favorable vehicle buying attitudes has been either 61 or 62 percent.

Despite these very stable readings in overall buying attitudes, the reasons consumers have expressed for their opinions have undergone substantial change. A record level of awareness of the availability of price discounts has been diminished by increased complaints about rising sticker prices.

In the November 1989 survey, 41 percent of all families reported the availability of price discounts and rebates on new vehicle purchases, up from 36 percent one month earlier and 27 percent one year earlier. At 41 percent, more families mentioned the availability of price discounts in the November 1989 survey than at any other time during the past 30 years.

At the same time, consumer awareness of increases in vehicle sticker prices has also risen. In the November 1989 survey, 23 percent registered complaints about high vehicle prices; up from 18 percent one month earlier, it is the highest level recorded since 1984.

While the large discounts offered at the end of the last model year have depressed current sales rates, the early introduction of discounts on the 1990 models coupled with the news of slowing sales has led consumers to believe that even larger discounts will be forthcoming.

In short, consumers have not only come to expect that discounts will be available, but have also come to view the timing and size of announced discount programs as a signal for what to expect in the future.

Home Buying

Favorable attitudes toward buying conditions for homes were held by 63 percent of all families in the November 1989 survey, down from 66 percent one month earlier and 67 percent one year earlier. The November decline was due to less favorable perceptions of home prices. Among all families in the November 1989 survey, 21 percent favorably mentioned current home prices, down from 26 percent in October.

Lower mortgage interest rates continue to be the mainstay of favorable home buying attitudes, but this source of strength has shown some erosion. Among all families in the November 1989 survey, 29 percent mentioned the availability of lower mortgage rates, although unchanged from the October reading, it was below the September high of 36 percent and the November 1988 reading of 33 percent. At the same time, complaints about high mortgage interest rates rose slightly to 15 percent in the November 1989 survey from 13 percent one month earlier and 12 percent one year earlier.

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The November 1989 survey included 502 completed interviews conducted between November 1 and November 27, 1989.